

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
DECEMBER 31, 2011 AND 2010

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NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2011 and 2010

Our discussion and analysis of the financial performance of Neosho Memorial Regional Medical Center provides a narrative overview of the Medical Center's financial activities for the years ended December 31, 2011 and 2010. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Medical Center's net assets increased by \$1,027,707 or 3.9 percent in 2011 and increased by \$697,900 or 2.7 percent in 2010.

The Medical Center reported operating income of \$1,765,828 in 2011, \$1,499,985 in 2010, and \$2,257,317 in 2009.

Using these financial statements

The Medical Center's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Medical Center, and resources held by or for the benefit of the Medical Center.

One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net assets and changes in them. The Medical Center's net assets - the difference between assets and liabilities - may be thought of as one way to measure the financial health, or financial position. Over time, increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2011 and 2010

Assets, liabilities, and net assets

Table 1 below summarizes the Medical Center's assets, liabilities, and net assets for the latest three calendar years.

Table 1: Assets, Liabilities, and Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Current assets	\$ 15,086,718	\$ 14,639,679	\$ 13,838,262
Capital assets, net	27,069,690	27,895,161	27,875,512
Other noncurrent assets	<u>5,713,400</u>	<u>4,621,021</u>	<u>5,552,264</u>
Total assets	<u>47,869,808</u>	<u>47,155,861</u>	<u>47,266,038</u>
Current liabilities	3,579,899	3,322,646	3,580,410
Long-term liabilities	<u>17,021,000</u>	<u>17,592,013</u>	<u>18,142,326</u>
Total liabilities	<u>20,600,899</u>	<u>20,914,659</u>	<u>21,722,736</u>
Total net assets	<u>\$ 27,268,909</u>	<u>\$ 26,241,202</u>	<u>\$ 25,543,302</u>

Cash and accounts receivable are the two most significant components of current assets. Cash increased by \$952,672 in 2011 after increasing by \$1,781,245 in 2010 and \$600,280 in 2009. The Medical Center generated \$5,703,198, \$5,035,253, and \$3,863,712 in cash from operations in 2011, 2010, and 2009. These cash flows are utilized to fund the Medical Center's debt service requirements and capital acquisitions that are not funded by funds deposited in a project account and held by our trustee. Cash is also affected by the timing of our collection of accounts receivable and our funding of funded depreciation, or assets limited as to use designated for capital acquisitions. Net accounts receivable at December 31, 2011, 2010, and 2009, were \$4,730,660, \$4,624,548, and \$5,335,027 representing 46, 49, and 57 days of net patient service revenue in net accounts receivable. The decrease in accounts receivable was offset by an increase in assets limited as to use designated for capital acquisitions of \$1,559,303 in 2011 as compared with 2010 and by \$1,207,800 in 2010 as compared with 2009. The accompanying cash flow statement provides additional details as to the change in cash balances for 2011 and 2010.

The Medical Center's investment in capital assets was \$2,422,888 in 2011 as compared with \$3,227,650 in 2010, and \$4,922,826 in 2009. Future capital acquisitions are expected to be primarily related to technology enhancements and replacement of equipment.

As noted above, assets limited as to use, internally designated for capital acquisitions, increased by \$1,559,303 in 2011 after increasing by \$1,207,800 in 2010. When funds are available, the Medical Center transfers funds to funded depreciation. These funds are then disbursed for the acquisition of capital assets. Funds held by trustees under bond indenture agreements are required to

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2011 and 2010

meet the bond reserve and debt service reserve fund requirements for the bonds and to fund hospital renovations. These funds have decreased in 2011 and 2010 as funds borrowed for projects have been expended. Amounts remaining on deposit with the trustee for projects at December 31, 2011 and 2010, were \$-0- and \$503,733, respectively.

Net assets or equity, has increased by 6.8 percent from 2009 to 2011. This increase is primarily from the positive operating results which are discussed below in more detail.

Operating results and changes in net assets

The Medical Center's net assets increased by \$1,027,707 or 3.9 percent in 2011 and \$697,900 or 2.7 percent in 2010, as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues			
Net patient service revenue	\$ 37,768,128	\$ 34,739,688	\$ 34,443,218
Other operating revenue	<u>784,109</u>	<u>605,711</u>	<u>623,326</u>
Total operating revenues	<u>38,552,237</u>	<u>35,345,399</u>	<u>35,066,544</u>
Operating expenses			
Salaries and benefits	19,708,431	18,228,863	17,170,454
Supplies and other	13,880,294	12,674,375	12,922,548
Depreciation and amortization	<u>3,197,684</u>	<u>2,942,176</u>	<u>2,716,225</u>
Total operating expenses	<u>36,786,409</u>	<u>33,845,414</u>	<u>32,809,227</u>
Operating income	1,765,828	1,499,985	2,257,317
Nonoperating revenues (expenses)	(762,551)	(820,370)	(669,948)
Capital grants and contributions	<u>24,430</u>	<u>18,285</u>	<u>122,320</u>
Increase in net assets	<u>\$ 1,027,707</u>	<u>\$ 697,900</u>	<u>\$ 1,709,689</u>

The first component of the overall change in the Medical Center's net assets is its operating income - generally the difference between net patient service revenues and other operating revenues and the expenses incurred to perform those services. The Medical Center's operating margin was 4.6 percent in 2011, increasing slightly from 4.2 percent in 2010.

The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, and other special payments. Net patient service revenue is also affected by changes in expenses, as a significant portion of the revenues are associated with services provided to Medicare and Medicaid beneficiaries whose services are reimbursed based on cost reimbursement principles.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2011 and 2010

The Medical Center experienced a 9.5 percent increase in operating revenues in 2011 as compared to a .8 percent in 2010. The increase in 2011 operating revenues was due primarily to higher outpatient service revenues. In 2011, the Medical Center experienced an increase in clinic revenues as a second physician joined the Women's clinic in 2011. The Medical Center also opened an Orthopedic clinic in 2011 and leased office space to a physician practice beginning in December 2010. In addition to the direct revenues generated from these clinics, the Medical Center also experienced an increase in ancillary services from having these clinics operate on the Medical Center's campus.

The Medical Center experienced a 3.9 percent decrease in inpatient discharges in 2011 as compared to 2010, and a 3.9 increase in 2010 as compared with 2009. As a critical access hospital, we are limited to having twenty-five inpatients admitted to our Medical Center at any one time. We operate our Medical Center near this limit often and do not anticipate being able to grow our inpatient services in the future. We are focused on growing our outpatient services which is consistent with national trends of having patients treated increasingly in an outpatient setting. We expect that this trend will continue in our service area.

The Medical Center has also consistently met the eligibility requirements for the State of Kansas Medicaid DSH program which awards payments to hospitals based on the level of uncompensated care provided by hospitals to uninsured or Medicaid patients. The payments through Medicaid DSH are disbursed quarterly to the Medical Center. Net patient service revenues recognized from this program were \$867,909, \$735,127, and \$820,480 in 2011, 2010, and 2009, respectively. These amounts are expected to be impacted in the future as health care reform regulations are implemented and more patients are provided health coverage through health insurance exchanges or other means.

Other significant items affecting net patient service revenues are the level of charity care and bad debts incurred by the Medical Center. These amounts are deducted from gross revenues along with third-party contractual adjustments to arrive at net patient service revenues. We have been focused on identifying charity care which resulted in a shifting of write-offs to charity care that may have previously been written off as bad debts. For the years ended 2011, 2010, and 2009, the Medical Center's charity care and provision for bad debts were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Provision for bad debts	\$ 3,604,277	\$ 3,929,053	\$ 4,517,260
Charity care	<u>2,276,424</u>	<u>1,785,201</u>	<u>808,054</u>
	<u>\$ 5,880,701</u>	<u>\$ 5,714,254</u>	<u>\$ 5,325,314</u>

These amounts represent 6.5 percent, 7.3 percent, and 6.7 percent of gross patient service revenues for the respective years ended 2011, 2010, and 2009. These percentages are affected by the level of uninsured or underinsured patients seeking care in our facility.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2011 and 2010

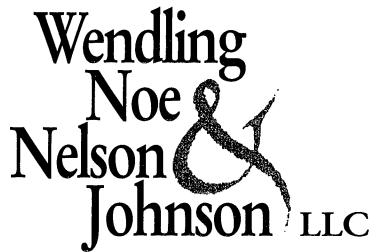
Employee salaries and wages increased by \$1,368,130 or 9.3 percent in 2011 and increased by \$687,593 or 4.9 percent during 2010. The change in salaries is driven by two factors which are the change in full-time equivalent employees (FTEs) and the average increase in employee hourly wages. The Medical Center employed an average of 304 FTEs during 2011, a 6 FTE increase from 2010. FTEs for 2010 increased by 2 from 2009. The increase in FTE's for both 2011 and 2010 was attributed primarily to the opening of the Women's clinic and the Orthopedic clinic.

Employee benefit costs as a percentage of salary and wage expense was 22.0 percent, 23.3 percent, and 21.8 percent in 2011, 2010, and 2009, respectively. These costs have remained relatively consistent as a percentage of gross salaries and wages during the past three years. The one component of this expense that has the most variability from year to year is the cost of providing health insurance coverage to our employees. This expense decreased by \$146,909 in 2011 after increasing by \$268,515 in 2010, both as compared to the prior year.

Supplies and other expenses increased by \$1,205,919 in 2011, decreased by \$248,173 in 2010 and increased by \$1,006,845 in 2009. In 2011, the Medical Center experienced an approximate \$585,000 increase in Medical Supply and Pharmacy expenses, an approximate \$150,000 increase in physical therapy contract service expense, and information systems expenses increasing an additional \$192,000 due to an increase in small equipment purchases and system maintenance costs. In 2010, the Medical Center experienced increases in pharmacy contract services of approximately \$135,000, physician recruitment expense of approximately \$115,000, and information systems maintenance costs of \$88,000. These increases were offset by an approximate \$200,000 decrease in the cost of drugs and medical supplies, a \$175,000 reduction in small equipment purchased, and an approximate \$70,000 decrease in contractual speech therapy costs.

Depreciation and interest expenses combined increased by \$233,607 in 2011 as compared to 2010. This is down from the \$356,923 increase in 2010 as compared to 2009. We continue to experience higher depreciation costs from the recent capital acquisitions and lower annualized interest expense as the Medical Center pays down outstanding debt.

This financial report is designed to provide a general overview of the Medical Center's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Neosho Memorial Regional Medical Center, 629 S. Plummer, Chanute, Kansas 66720.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Neosho Memorial Regional Medical Center

We have audited the accompanying financial statements of the business-type activity of Neosho Memorial Regional Medical Center, a component unit of Neosho County, Kansas, as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of Neosho Memorial Regional Medical Center as of December 31, 2011 and 2010, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 5 is not a required part of the basic financial statements but is required supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wendling Noe Nelson & Johnson 22c

Topeka, Kansas
April 3, 2012

FINANCIAL STATEMENTS

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

BALANCE SHEETS

December 31,

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,408,783	\$ 6,456,111
Assets limited as to use	466,352	528,424
Patient accounts receivable, net of estimated uncollectibles of \$1,299,768 in 2011 and \$1,558,303 in 2010	4,730,660	4,624,548
Inventories	1,024,214	1,033,179
Prepaid expenses	330,009	296,562
Other	298,569	30,108
Estimated third-party payor settlements	<u>828,131</u>	<u>1,670,747</u>
Total current assets	<u>15,086,718</u>	<u>14,639,679</u>
ASSETS LIMITED AS TO USE		
Internally designated for capital acquisitions	3,978,909	2,419,606
Under bond indenture agreements - held by trustee	<u>1,884,086</u>	<u>2,389,145</u>
	5,862,995	4,808,751
Less amount required to meet current obligations	<u>466,352</u>	<u>528,424</u>
	<u>5,396,643</u>	<u>4,280,327</u>
CAPITAL ASSETS		
Land	286,612	277,954
Depreciable capital assets	51,349,041	49,000,297
Less accumulated depreciation and amortization	<u>(24,565,963)</u>	<u>(21,383,090)</u>
Capital assets, net	<u>27,069,690</u>	<u>27,895,161</u>
OTHER ASSETS		
Real estate investments, at cost	58,363	58,363
Deferred financing costs, net	<u>258,394</u>	<u>282,331</u>
	<u>316,757</u>	<u>340,694</u>
	<u>\$ 47,869,808</u>	<u>\$ 47,155,861</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Current maturities of long-term debt and capital leases	\$ 570,000	\$ 550,000
Accounts payable and accrued expenses	834,976	759,496
Construction costs payable	10,992	60,758
Salaries, wages, and payroll taxes payable	510,238	437,546
Accrued vacation pay	1,367,390	1,221,436
Interest payable	<u>286,303</u>	<u>293,410</u>
Total current liabilities	<u>3,579,899</u>	<u>3,322,646</u>
LONG-TERM DEBT AND CAPITAL LEASES, net of current maturities		
	<u>17,021,000</u>	<u>17,592,013</u>
Total liabilities	<u>20,600,899</u>	<u>20,914,659</u>
NET ASSETS		
Invested in capital assets net of related debt	9,478,691	10,256,881
Restricted for debt service	1,884,086	1,885,412
Unrestricted	<u>15,906,132</u>	<u>14,098,909</u>
Total net assets	<u>27,268,909</u>	<u>26,241,202</u>
	<u>\$ 47,869,808</u>	<u>\$ 47,155,861</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Operating revenues		
Net patient service revenue	\$ 37,768,128	\$ 34,739,688
Other	<u>784,109</u>	<u>605,711</u>
Total operating revenues	<u>38,552,237</u>	<u>35,345,399</u>
Operating expenses		
Salaries and wages	16,152,032	14,783,902
Employee benefits	3,556,399	3,444,961
Supplies and other expenses	13,880,294	12,674,375
Depreciation and amortization	<u>3,197,684</u>	<u>2,942,176</u>
Total operating expenses	<u>36,786,409</u>	<u>33,845,414</u>
Operating income	<u>1,765,828</u>	<u>1,499,985</u>
Nonoperating revenues (expenses)		
Investment income	111,794	165,640
Interest expense	(897,168)	(919,069)
Noncapital grants and contributions	17,206	12,447
Other	<u>5,617</u>	<u>(79,388)</u>
Total nonoperating revenues (expenses)	<u>(762,551)</u>	<u>(820,370)</u>
Excess of revenues over expenses before capital grants and contributions	1,003,277	679,615
Capital grants and contributions	<u>24,430</u>	<u>18,285</u>
Increase in net assets	1,027,707	697,900
Net assets beginning of year	<u>26,241,202</u>	<u>25,543,302</u>
Net assets end of year	<u>\$ 27,268,909</u>	<u>\$ 26,241,202</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

STATEMENTS OF CASH FLOWS

Year ended December 31,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 38,504,632	\$ 35,522,239
Payments to or on behalf of employees	(19,489,785)	(18,045,004)
Payments for supplies and services	(13,829,296)	(13,044,944)
Other receipts and payments	<u>517,647</u>	<u>602,962</u>
Net cash provided by operating activities	<u>5,703,198</u>	<u>5,035,253</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	<u>17,206</u>	<u>12,447</u>
Net cash provided by noncapital financing activities	<u>17,206</u>	<u>12,447</u>
Cash flows from capital and related financing activities		
Purchase of property and equipment	(2,422,888)	(3,227,650)
Proceeds from sale of equipment	6,526	875
Interest paid on capital related debt	(881,351)	(903,608)
Capital grants and contributions	24,430	18,285
Principal payments on long-term debt obligations	<u>(550,000)</u>	<u>(529,326)</u>
Net cash used for capital and related financing activities	<u>(3,823,283)</u>	<u>(4,641,424)</u>
Cash flows from investing activities		
Decrease (increase) in assets limited as to use	(1,054,244)	1,213,848
Interest received	<u>109,795</u>	<u>161,121</u>
Net cash (used) provided by investing activities	<u>(944,449)</u>	<u>1,374,969</u>
Net increase in cash and cash equivalents	952,672	1,781,245
Cash and cash equivalents at beginning of year	<u>6,456,111</u>	<u>4,674,866</u>
Cash and cash equivalents at end of year	<u>\$ 7,408,783</u>	<u>\$ 6,456,111</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 1,765,828	\$ 1,499,985
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	3,197,684	2,942,176
Provision for bad debts	3,604,277	3,929,053
(Increase) decrease in		
Accounts receivable	(3,710,389)	(3,218,574)
Estimated third-party payor settlements	842,616	72,072
Inventories	8,965	(43,887)
Prepaid expenses	(33,447)	(57,371)
Other current assets	(266,462)	(2,749)
Increase (decrease) in		
Accounts payable and accrued expenses	75,480	(269,311)
Salaries and payroll taxes payable	72,692	75,190
Accrued vacation	<u>145,954</u>	<u>108,669</u>
Net cash provided by operating activities	<u>\$ 5,703,198</u>	<u>\$ 5,035,253</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Neosho Memorial Regional Medical Center is owned by Neosho County, Kansas, and operated by the Board of Trustees of Neosho Memorial Regional Medical Center, a seven-member governing board appointed by the governing body of the County. The Medical Center, which was organized in 1950, is a not-for-profit general hospital located in Chanute, Kansas. The Medical Center can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Medical Center is a component unit of the County.

The Medical Center has entered into a management agreement with Quorum Health Resources (QHR) for the operation of the Medical Center. Under the agreement, QHR agrees to manage the daily operations of the Medical Center and to provide the Medical Center with the services of a chief executive officer and a chief financial officer, both of which are employed by QHR. The Medical Center's Board of Trustees retains all authority over the business, policies, operations, and assets of the Medical Center.

2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. Basis of accounting

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting," the Medical Center has implemented all GASB pronouncements, and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

4. Cash and cash equivalents

Cash and cash equivalents include all cash and short-term investments, excluding any such amounts included in assets limited as to use.

5. Allowance for doubtful accounts

The Medical Center provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Medical Center estimates this allowance based on the aging of its accounts receivable and applying specific reserve factors for each type of payor.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

6. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

7. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes, and assets held by a trustee under a bond indenture agreement.

8. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

9. Cost of borrowing

Interest costs (including amortization of deferred financing costs and bond premium), incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Costs incurred in connection with the issuance of long-term debt (deferred financing costs) are amortized using the interest method over the term of the related debt.

10. Investments and investment income

Investments in debt securities are reported at fair value. Interest and gains and losses, both realized and unrealized, on investments in debt securities are included in nonoperating revenue when earned.

11. Accrued vacation pay

The Medical Center employees earn paid time off at varying rates depending on years of service. Paid time off benefits vest to the employee and are paid at the time of termination.

12. Net assets

Net assets of the Medical Center are classified in three components. "Net assets invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the current balances of

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net assets" are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. "Unrestricted net assets" are remaining net assets that do not meet the definition of "invested in capital assets net of related debt" or "restricted."

13. Operating revenues and expenses

The Medical Center's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

14. Grants and contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

15. Charity care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care charges foregone and the estimated cost of providing this care is disclosed in Note C.

16. Income taxes

The Medical Center is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE B - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	Balance December 31, 2010	Transfers and additions	Retirements	Balance December 31, 2011
Land	\$ 277,954	\$ 8,658	\$ -	\$ 286,612
Land improvements	1,558,117			1,558,117
Buildings	14,136,378	2,607,825		16,744,203
Fixed equipment	17,523,294	625,566		18,148,860
Major movable equipment	<u>12,747,257</u>	<u>1,027,035</u>	<u>15,720</u>	<u>13,758,572</u>
Totals at historical cost	<u>46,243,000</u>	<u>4,269,084</u>	<u>15,720</u>	<u>50,496,364</u>
Less accumulated depreciation and amortization	<u>21,383,090</u>	<u>3,197,684</u>	<u>14,811</u>	<u>24,565,963</u>
	24,859,910	1,071,400	909	25,930,401
Construction in progress and minor equipment	<u>3,035,251</u>	<u>(1,895,962)</u>		<u>1,139,289</u>
Capital assets, net	<u>\$ 27,895,161</u>	<u>\$ (824,562)</u>	<u>\$ 909</u>	<u>\$ 27,069,690</u>
	Balance December 31, 2009	Transfers and additions	Retirements	Balance December 31, 2010
Land	\$ 167,618	\$ 110,336	\$ -	\$ 277,954
Land improvements	1,364,539	193,578		1,558,117
Buildings	14,113,201	28,930	5,753	14,136,378
Fixed equipment	17,443,233	143,862	63,801	17,523,294
Major movable equipment	<u>13,791,891</u>	<u>510,124</u>	<u>1,554,758</u>	<u>12,747,257</u>
Totals at historical cost	<u>46,880,482</u>	<u>986,830</u>	<u>1,624,312</u>	<u>46,243,000</u>
Less accumulated depreciation and amortization	<u>19,984,963</u>	<u>2,942,176</u>	<u>1,544,049</u>	<u>21,383,090</u>
	26,895,519	(1,955,346)	80,263	24,859,910
Construction in progress and minor equipment	<u>979,993</u>	<u>2,055,258</u>		<u>3,035,251</u>
Capital assets, net	<u>\$ 27,875,512</u>	<u>\$ 99,912</u>	<u>\$ 80,263</u>	<u>\$ 27,895,161</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE C - REIMBURSEMENT PROGRAMS

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Medical Center is a critical access hospital for purposes of the Medicare program and is paid for most services rendered to Medicare beneficiaries under various cost reimbursement methodologies. Ambulance and physician services are prospectively paid based on their respective fee schedules. The Medical Center is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare fiscal intermediary. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited or reviewed by the Medicare fiscal intermediary through December 31, 2010.

Medicaid - Acute care services rendered to Medicaid beneficiaries, other than those covered by managed care plans, are paid under provisions applicable to critical access hospitals. Payments to the Medical Center under the critical access hospital provisions are based on cost reimbursement methodologies used by the Medicare program. Final settlement is determined after submission of annual cost reports and reviews thereof by the Kansas Department of Health and Environment.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of gross and net patient service revenue is as follows:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue	\$ 90,982,833	\$ 77,853,126
Deductions from patient service revenue		
Third-party contractual adjustments	47,825,575	37,620,444
Medicaid DSH payments	(867,909)	(735,127)
Other discounts and allowances	376,338	513,867
Charity care	2,276,424	1,785,201
Provision for bad debts	<u>3,604,277</u>	<u>3,929,053</u>
Net patient service revenue	<u>\$ 37,768,128</u>	<u>\$ 34,739,688</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE C - REIMBURSEMENT PROGRAMS - Continued

The Medical Center estimates that the cost of providing charity care, based on overall cost to charge ratios obtained from the Hospital's cost reports was \$899,984 and \$748,026 for 2011 and 2010, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 44 percent and 7 percent, respectively, of the Medical Center's net patient service revenue during 2011 and 46 percent and 8 percent, respectively, of the Medical Center's net patient service revenue during 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

NOTE D - ASSETS LIMITED AS TO USE

Internally designated

The Medical Center's Board of Trustees has designated certain investments to be used for future capital improvements. These assets may be used for other purposes by action of the Board of Trustees. These assets consist of the following:

	<u>2011</u>	<u>2010</u>
Interest bearing checking	<u>\$ 3,978,909</u>	<u>\$ 2,419,606</u>

Under bond indenture agreement - held by trustee

Assets limited as to use by a bond indenture agreement are held by a trustee and are invested in cash or money market funds and are stated at fair value. These assets relate to the 2006 revenue bond issues (Note E) and are set aside for the following:

	<u>2011</u>	<u>2010</u>
Principal and interest sinking funds	\$ 466,351	\$ 467,665
Bond reserve account	1,417,735	1,417,747
Project account	<u>503,733</u>	<u>503,733</u>
	<u>\$ 1,884,086</u>	<u>\$ 2,389,145</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt and capital lease obligations are summarized as follows:

	Outstanding balance	
	<u>2011</u>	<u>2010</u>
5.05% - 5.15% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2006 A (Neosho Memorial Regional Medical Center); issued on September 1, 2006, in the original amount of \$10,000,000 term bonds due September 1, 2026 and September 1, 2031, with mandatory annual redemptions beginning September 1, 2023	\$ 10,000,000	\$ 10,000,000
4.05% - 5% Neosho County, Kansas Hospital Revenue Bonds, Series 2006 B (Neosho Memorial Regional Medical Center); issued on September 1, 2006, in the original amount of \$10,000,000 term bonds due serially through September 1, 2018, and term bonds due September 1, 2022, with mandatory annual redemptions beginning September 1, 2019	7,550,000	8,070,000
Capital lease obligation with current interest rate of 2.15% collateralized by leased equipment with an amortized cost of \$0 at December 31, 2011	<u>30,000</u>	<u>60,000</u>
	17,580,000	18,130,000
Unamortized bond premium	<u>11,000</u>	<u>12,013</u>
	17,591,000	18,142,013
Less current maturities	<u>(570,000)</u>	<u>(550,000)</u>
Long-term obligations net of current portion	<u>\$ 17,021,000</u>	<u>\$ 17,592,013</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The following is a summary of changes in long-term debt and capital lease obligations:

	<u>Capital lease obligation</u>	<u>Hospital revenue bonds</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2010	\$ 89,326	\$ 18,570,000	\$ 18,659,326
Principal payments	<u>(29,326)</u>	<u>(500,000)</u>	<u>(529,326)</u>
Outstanding at December 31, 2010	60,000	18,070,000	18,130,000
Principal payments	<u>(30,000)</u>	<u>(520,000)</u>	<u>(550,000)</u>
Outstanding at December 31, 2011	<u>\$ 30,000</u>	<u>\$ 17,550,000</u>	<u>\$ 17,580,000</u>

On September 1, 2006, the County issued \$20,000,000 in Hospital Revenue Bonds, Series 2006 A and B. The net proceeds of the 2006 Series A bonds, along with other available funds of the Medical Center, were used to refund the \$10,000,000 of Series 2005 Hospital Revenue Bonds issued in December 2005. The net proceeds of the 2006 Series B bonds, along with the net proceeds of the Series 2005 bonds were used to fund the renovation and addition to the current hospital building.

Under the terms of the 2006 bond indenture, the Medical Center is required to maintain certain deposits with a trustee. Such deposits are for the repayment of principal and interest as they come due as well as for the maintenance of required bond reserve accounts. These amounts are included with assets limited as to use in the financial statements. The indenture agreement also includes certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, and level of fees and rates charged.

The Medical Center has also entered into an agreement to sell equipment to a bank and subsequently lease the equipment back over a period of ten years. The transaction has been recorded as a sale-leaseback and reflected as a capital lease in these financial statements. The lease interest rate is adjusted quarterly to 1 percent above the rate the Medical Center receives on funds deposited with the bank.

Scheduled annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 540,000	\$ 858,910	\$ 1,398,910
2013	560,000	836,500	1,396,500
2014	590,000	812,980	1,402,980
2015	620,000	787,905	1,407,905
2016	650,000	761,245	1,411,245
2017 to 2021	3,735,000	3,335,820	7,070,820
2022 to 2026	4,755,000	2,315,450	7,070,450
2027 to 2031	<u>6,100,000</u>	<u>973,865</u>	<u>7,073,865</u>
	<u>\$ 17,550,000</u>	<u>\$ 10,682,675</u>	<u>\$ 28,232,675</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The following is a yearly schedule of future minimum lease payments under capital leases as of December 31, 2011:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 30,000	\$ 645	\$ 30,645
Total minimum lease payments	<u>\$ 30,000</u>	<u>\$ 645</u>	30,645
Less amounts representing interest			<u>645</u>
Present value of net minimum lease payments			<u>\$ 30,000</u>

Total interest costs are summarized as follows:

	<u>2011</u>	<u>2010</u>
Total interest incurred	\$ 874,244	\$ 896,858
Amortization of bond premium and deferred financing costs	<u>22,924</u>	<u>22,211</u>
	<u>\$ 897,168</u>	<u>\$ 919,069</u>

Rental expense under operating leases totaled \$460,131 in 2011 and \$490,256 in 2010. Future minimum lease payments under operating leases are \$119,400 for the year ending December 31, 2012.

NOTE F - RELATED PARTY TRANSACTIONS

The Medical Center contracts for management services, services of certain management personnel, and other services with QHR. Under the agreement, QHR is responsible for daily management and administration of the Medical Center, with ultimate control over the assets and operations of the Medical Center retained by the Medical Center's board. Amounts paid to QHR during 2011 and 2010, for management services were \$258,222 and \$250,913, respectively. The Medical Center also reimbursed QHR for salaries, employee benefits, and expenses of the chief executive officer and the chief financial officer (Note A1).

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE F - RELATED PARTY TRANSACTIONS - Continued

The Neosho Memorial Regional Medical Center Foundation, Inc., provides support to the Medical Center. During the year ended December 31, 2011, the Foundation transferred \$23,930 to the Medical Center for the purchase of major movable equipment. Beginning in 2010, the Medical Center has agreed to temporarily fund the costs of a Foundation director.

The Foundation's total assets are approximately \$540,000 as of December 31, 2011. Management considers the Foundation's net assets not to be significant in relation to the Medical Center.

The County provides annual support to the Medical Center for the operation of the ambulance department. The County transferred \$66,007 in 2011 and \$81,000 in 2010 to the Medical Center for ambulance operations. The County also occasionally acquires ambulances to replace aging vehicles in the Medical Center's fleet. No ambulances were purchased in 2011 or 2010.

NOTE G - RETIREMENT PLAN

The Medical Center sponsors a defined contribution plan (Plan) as authorized by Kansas statutes. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

The Plan covers substantially all employees of the Medical Center. Employees are eligible immediately to make contributions to the Plan. To become eligible for contributions made by the Medical Center, the employee must have a year of service, defined as 1,000 hours. Contributions made by the employees vest immediately and contributions made by the Medical Center vest over six years. An employee who leaves the employment of the Medical Center is paid subject to the terms of the individual annuity contract. An employee who retires must begin receiving benefits no later than April 1st of the calendar year following the year in which the participant attains age 70 1/2.

The Medical Center provides for a discretionary match to be determined every year by the Medical Center's Board of Trustees. For the years ended December 31, 2011 and 2010, the Medical Center matched 100 percent of each eligible employee's contribution up to 5 1/2 percent of the participant's compensation. Forfeitures are used to reduce future employer contributions.

The payroll for employees covered by the Plan for the years ended December 31, 2011 and 2010, was \$11,032,486 and \$9,212,860, respectively. The total payroll was \$16,152,032 in 2011 and \$14,783,902 in 2010. Total contributions to the Plan in 2011 were \$1,222,750 which consisted of \$699,543 of employee contributions and \$523,207 of employer matching contributions. Total contributions to the Plan in 2010 were \$1,006,311 which consisted of \$571,473 of employee contributions and \$434,838 of employer matching contributions.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE G - RETIREMENT PLAN - Continued

No pension provision changes occurred during the year that affected the required contributions to be made by the Medical Center or its employees. The Plan held no securities of the Medical Center or other related parties during the year or as of the close of the year.

Total employer contributions in 2011 and 2010 were 4.7 percent of covered payroll, respectively. Total employee contributions in 2011 were 6.3 percent of covered payroll and in 2010 were 6.6 percent of covered payroll.

NOTE H - DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Medical Center with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

The carrying amount of the Medical Center's deposits with financial institutions was \$11,384,097 and the bank balance was \$11,988,939 at December 31, 2011. The bank deposits are categorized as follows at December 31, 2011:

Amount insured by the F.D.I.C., or collateralized with securities held by the Medical Center in its name	\$ 1,250,000
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Medical Center's name)	<u>10,738,939</u>
	<u>\$ 11,988,939</u>

NOTE I - COMMITMENTS AND CONTINGENCIES

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE J - CONCENTRATION OF CREDIT RISK

The Medical Center is located in Chanute, Kansas. The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2011</u>	<u>2010</u>
Medicare	36%	37%
Medicaid	7	7
Blue Cross	15	16
Commercial insurance	21	21
Workers' compensation	1	1
Self-pay	<u>20</u>	<u>18</u>
	<u>100%</u>	<u>100%</u>

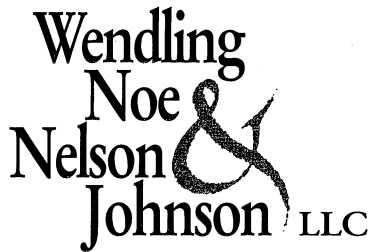
NOTE K - MEDICAL MALPRACTICE INSURANCE

For the years ended December 31, 2011 and 2010, the Medical Center was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Medical Center for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$5,000,000 per occurrence with an aggregate amount in any policy year of \$5,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2012, for the policy period from January 1, 2012 to January 1, 2013. Management believes that any claims asserted for incidents occurring through December 31, 2011, would be settled within the limits of insurance coverage.

NOTE L - SUBSEQUENT EVENTS

Management has evaluated all subsequent events through the date of the independent accountants' report, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION



Certified Public Accountants
and Management Consultants

Brian J. Florea, CPA
Derek H. Hart, CPA
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Heather R. Eichem, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL INFORMATION

Board of Trustees
Neosho Memorial Regional Medical Center

We have audited the basic financial statements of Neosho Memorial Regional Medical Center for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 3, 2012, which contained an unqualified opinion on those financial statements. Our audits were made for the purpose of forming an opinion on the basic financial statements as a whole of Neosho Memorial Regional Medical Center as of and for the years ended December 31, 2011 and 2010, which are presented in the preceding section of this report. The supplemental information as of and for the years ended December 31, 2011 and 2010, presented hereinafter, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Wendling Noe Nelson & Johnson 22C

Topeka, Kansas
April 3, 2012

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

ACCOUNTS RECEIVABLE

Year ended December 31,

Aging of accounts receivable, based on date of discharge, is as follows:

Aging	Amounts		Percent	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current	\$ 6,746,523	\$ 6,095,677	61.2%	57.0%
31 to 60 days	2,179,388	1,651,915	19.8	15.4
61 to 120 days	1,599,722	1,812,240	14.5	16.9
Over 120 days	<u>493,748</u>	<u>1,142,297</u>	<u>4.5</u>	<u>10.7</u>
	11,019,381	10,702,129	<u>100.0%</u>	<u>100.0%</u>
Less allowance for contractual adjustments	4,988,953	4,519,278		
Less allowance for uncollectible accounts	<u>1,299,768</u>	<u>1,558,303</u>		
	<u>\$ 4,730,660</u>	<u>\$ 4,624,548</u>		

Changes in the allowance for uncollectible accounts are as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 1,558,303	\$ 1,718,140
Provisions for bad debts	3,604,277	3,929,053
Collections of accounts previously charged off	<u>1,674,728</u>	<u>1,415,787</u>
	6,837,308	7,062,980
Accounts charged off	<u>5,537,540</u>	<u>5,504,677</u>
Balance at end of year	<u>\$ 1,299,768</u>	<u>\$ 1,558,303</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

PATIENT SERVICE REVENUE

Year ended December 31,

	2011		2010	
	Patient service revenue	% of gross patient service revenue	Patient service revenue	% of gross patient service revenue
Inpatient services				
Daily patient care				
Acute care	\$ 7,929,786	8.7	\$ 6,804,104	8.7
Skilled nursing care	1,070,588	1.2	831,480	1.1
Intensive care	1,413,217	1.6	1,471,808	1.9
Nursery	615,614	0.7	619,708	0.8
Operating room	1,398,682	1.5	1,378,932	1.8
Recovery	240,330	0.3	218,193	0.3
Delivery and labor room	849,996	0.9	871,042	1.1
Medical and surgical supplies	1,890,153	2.1	2,005,783	2.6
Emergency	756,678	0.8	721,215	0.9
Laboratory	4,950,716	5.4	4,481,633	5.8
Electrocardiology	125,750	0.1	122,990	0.2
Radiology, nuclear medicine, ultrasound, CT, and MRI	2,068,571	2.3	1,824,227	2.3
Pharmacy	3,443,910	3.8	3,359,711	4.3
Anesthesiology	37,100		35,901	
Respiratory therapy	2,200,330	2.4	1,847,405	2.4
Physical therapy	326,693	0.4	273,876	0.4
Electroencephalography	713		1,908	
Speech therapy	91,954	0.1	74,368	0.1
Cardiac rehabilitation	6,819		1,688	
	<u>29,417,600</u>	<u>32.3</u>	<u>26,945,972</u>	<u>34.7</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

PATIENT SERVICE REVENUE - CONTINUED

Year ended December 31,

	2011		2010	
	Patient service revenue	% of gross patient service revenue	Patient service revenue	% of gross patient service revenue
Outpatient services				
Observation	\$ 3,780,595	4.3	\$ 2,861,313	3.7
Operating room	5,407,100	5.9	4,680,591	6.0
Recovery room	1,766,505	1.9	1,554,547	2.0
Delivery and labor room	375,961	0.4	329,717	0.4
Medical and surgical supplies	4,136,959	4.5	4,338,372	5.6
Emergency	8,700,551	9.7	7,023,588	9.0
Laboratory	8,531,782	9.4	7,210,608	9.3
Electrocardiology	442,240	0.5	408,484	0.5
Radiology, nuclear medicine, ultrasound, CT, and MRI	15,672,600	17.2	12,186,048	15.7
Pharmacy	3,302,825	3.6	2,717,760	3.5
Anesthesiology	101,423	0.1	99,079	0.1
Respiratory therapy	724,407	0.8	609,512	0.8
Physical therapy	1,858,865	2.0	1,586,063	2.0
Electroencephalography	678,809	0.7	816,346	1.0
Speech therapy	1,050,477	1.2	842,818	1.1
Cardiac rehabilitation	396,293	0.4	347,619	0.4
Home health and hospice	803,453	0.9	844,351	1.1
Ambulance	1,866,769	2.1	1,770,911	2.3
Social services	11,727		10,875	
Womens clinic	1,844,377	2.0	654,052	0.8
Specialty clinic	11,116		14,500	
Orthopedic clinic	100,399	0.1		
	<u>61,565,233</u>	<u>67.7</u>	<u>50,907,154</u>	<u>65.3</u>
Gross patient service revenue	90,982,833	100.0	77,853,126	100.0
Deductions from patient service revenue				
Contractual adjustments	47,825,575	52.6	37,620,444	48.3
Medicaid DSH payments	(867,909)	(1.0)	(735,127)	(0.9)
Charity and other discounts	2,652,762	2.9	2,299,068	3.0
Provision for bad debts	<u>3,604,277</u>	<u>4.0</u>	<u>3,929,053</u>	<u>5.0</u>
Net patient service revenue	<u>\$ 37,768,128</u>	<u>41.5</u>	<u>\$ 34,739,688</u>	<u>44.6</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
OPERATING EXPENSES BY FUNCTIONAL DIVISION
Year ended December 31,

	2011			2010		
	Salaries and other wages	Supplies and expenses	Total	Salaries and other wages	Supplies and expenses	Total
Routine services						
Nursing administration	\$ 972,872	\$ 71,507	\$ 1,044,379	\$ 923,520	\$ 42,526	\$ 966,046
Acute care and nursery	2,565,948	389,578	2,955,526	2,517,633	412,958	2,930,591
Intensive care	689,224	63,130	752,354	668,255	65,601	733,856
	<u>4,228,044</u>	<u>524,215</u>	<u>4,752,259</u>	<u>4,109,408</u>	<u>521,085</u>	<u>4,630,493</u>
Ancillary services						
Medical and surgical supplies	104,424	1,788,321	1,892,745	107,236	1,397,017	1,504,253
Observation	669,887	76,468	746,355	637,156	86,943	724,099
Central sterile	40,892	89,122	130,014	37,489	83,404	120,893
Laboratory	725,567	855,782	1,581,349	710,919	941,187	1,652,106
Electrocardiology	6,983	929	7,912	7,288	736	8,024
Radiology, nuclear medicine, ultrasound, CT, and MRI	1,001,969	848,517	1,850,486	930,284	829,289	1,759,573
Pharmacy		1,794,670	1,794,670		1,599,290	1,599,290
Operating and recovery room	579,927	874,069	1,453,996	563,206	786,304	1,349,510
Anesthesiology		138,942	138,942		123,712	123,712
Delivery and labor		4,015	4,015		4,537	4,537
Emergency	1,790,806	322,252	2,113,058	1,687,855	262,813	1,950,668
Ambulance	618,283	72,541	690,824	606,384	71,138	677,522
Physical therapy		1,029,508	1,029,508		879,972	879,972
Respiratory therapy	443,335	85,342	528,677	424,792	84,504	509,296
Electroencephalography	21,496	48,386	69,882	24,731	66,964	91,695
Home health and hospice	393,986	135,334	529,320	417,405	142,949	560,354
Social service		6,133	6,133		9,034	9,034
Lifeline		44,402	44,402		46,497	46,497
Speech therapy	216,841	90,847	307,688	184,383	58,596	242,979
Cardiac rehabilitation	37,817	8,709	46,526	64,059	11,725	75,784
Specialty clinic	117,607	5,215	122,822	71,066	8,003	79,069
Womens clinic	888,684	163,362	1,052,046	372,899	65,970	438,869
Orthopedic clinic	76,430	49,873	126,303			
	<u>7,734,934</u>	<u>8,532,739</u>	<u>16,267,673</u>	<u>6,847,152</u>	<u>7,560,584</u>	<u>14,407,736</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
 OPERATING EXPENSES BY FUNCTIONAL DIVISION - CONTINUED
 Year ended December 31,

	2011			2010		
	Salaries and other wages	Supplies and expenses	Total	Salaries and other wages	Supplies and expenses	Total
General services						
Administrative and general						
Administration	\$ 756,356	\$ 624,783	\$ 1,381,139	\$ 612,522	\$ 579,670	\$ 1,192,192
Business office	286,382	367,530	653,912	247,972	366,568	614,540
Communications	149,555	200,842	350,397	158,989	152,396	311,385
Data processing	293,086	687,111	980,197	260,473	495,030	755,503
Accounting	230,077	107,663	337,740	205,102	96,452	301,554
Patient transportation	64,869	17,761	82,630	57,236	15,504	72,740
Insurance		223,200	223,200		241,160	241,160
Admissions and switchboard	359,375	49,764	409,139	368,100	66,550	434,650
Printing	27,176	15,564	42,740	24,792	12,272	37,064
Resident House		8,964	8,964		7,509	7,509
Employee health and welfare	346,952	3,638,544	3,985,496	321,946	3,573,563	3,895,509
Dietary	356,913	605,397	962,310	343,054	587,881	930,935
Plant operation and maintenance	285,930	1,195,217	1,481,147	264,951	1,093,974	1,358,925
Rehab and fitness center		29,450	29,450		33,157	33,157
Purchasing	110,722	14,951	125,673	121,592	47,654	169,246
Housekeeping	312,137	154,605	466,742	303,229	137,019	440,248
Laundry and linen		211,955	211,955		219,735	219,735
Medical records	401,184	183,281	584,465	351,990	270,815	622,805
Continuing education	208,340	43,157	251,497	185,394	40,758	226,152
	<u>4,189,054</u>	<u>8,379,739</u>	<u>12,568,793</u>	<u>3,827,342</u>	<u>8,037,667</u>	<u>11,865,009</u>
Depreciation and amortization	-	3,197,684	3,197,684	-	2,942,176	2,942,176
	<u>\$ 16,152,032</u>	<u>\$ 20,634,377</u>	<u>\$ 36,786,409</u>	<u>\$ 14,783,902</u>	<u>\$ 19,061,512</u>	<u>\$ 33,845,414</u>